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C O N F I D E N T I A L SECTION 01 OF 03 WARSAW 000035

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SUBJECT: POLISH GOVERNMENT REPLACES FINANCE MINISTER TERESA
LUBINSKA WITH FORMER PO DEPUTY AND BUDGET EXPERT ZYTA
GILOWSKA

REF: WARSAW 00007

Classified By: Economic counselor Richard Rorvig for reasons 1.5 (b) and (d).

Summary

1. (C) In a surprise move, Prime Minister Marcinkiewicz has replaced Finance Minister Teresa Lubinska with ex-Civic Platform Party (PO) insider and budget expert Zyta Gilowska. In addition, Gilowska will hold the rank of Deputy Prime Minister. From September 2001 to May 2005 Gilowska was a member of the Sejm. She resigned her seat in May 2005 and left the PO following charges of nepotism. Gilowska, currently a professor of public finance at Lubelski Catholic University, was regarded as the PO's senior expert on budget issues. Until her resignation from the party, she was tipped to be the PO's candidate for Finance Minister in a possible PO-PiS coalition government. The appointment of Gilowska appears to be less by the shortcomings of her predecessor, than by PiS party leader Jaroslaw Kaczynski's efforts to siphon off support for opposition parties and make the PiS the big-tent center right political force. At the same time, some analysts believe in the economically liberal Gilowska may weaken the League of Polish Families (LPR) and Self Defence (SO) parties support for economic legislation in the Sejm. In a face-saving gesture, former Minister Lubinska will now move to the Prime Minister's office where she will work on budget issues, where she will hold the rank of State Secretary.

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Lubinska sacked after 60 days

2. (C) The sacking of Finance Minister Teresa Lubinska after roughly 60 days in office sets something of a record for brevity of tenure among Poland's post-communist Finance Ministers. Lubinska, an academician who was Prime Minister Marcinkiewicz's thesis advisor at university, was regarded as one of the more vulnerable members of the cabinet due to her lack of a party base, unfamiliarity with Warsaw politics, and early press gaffes. In one widely-quoted first interview with the Financial Times, Lubinska strongly criticized the alleged negative impact of foreign hyper-markets on Polish communities and pooh-poohed the value of rapid adoption of the Euro. Lubinska will now move to Prime Minister Marcinkiewicz's office where she will work on budget issues, enjoying the rank of State Secretary.

More a Political than Economic Move

3. (C) Opposition Politicians leapt on Lubinska's dismissal, the second minister to leave PM Marcinkiewicz's two-month old government (see reftel), as evidence that the PiS Government is wobbly. What seems likelier is that Zyta Gilowska, drummed out of her leadership position in the opposition Civic Platform last spring under charges of nepotism, is the latest chapter in PiS party leader Jaroslaw Kaczynski's efforts to siphon off support for opposition parties. PiS has pulled away supporters from the right wing League of Polish Families (LPR) and Self Defense (SO). Gilowska's appointment may well be part of Kaczynski's ongoing effort to peel away supporters from the Civic Platform as well, thus making the PiS the big tent center-right political force in Poland. On the other hand, bringing in the economically liberal Gilowska may weaken LPR and SO support for economic legislation in the Sejm.

Small Difference on Economic Issues

4. (C) In contrast to her predecessor, Gilowska brings to the

job familiarity with the Sejm procedures and inside knowledge of Warsaw politics. However, as a practical matter, there is likely to be little real difference on economic issues between the two. Neither considered Poland ripe for joining the Euro zone prior to 2010. Both are committed to carrying out the main outlines of the PIS economic policy. Gilowska is commonly credited with being the author of the Civic Platform's election plank arguing for a unified 15 percent tax rate for personal income tax, corporate income tax, and value added tax. However, she has also stated that the 15 percent number was not her idea, but rather the concept of PO-affiliated economist Rafal Antczak. Gilowska said she can support the PIS proposal for a simplified, two step PIT tax rate set at 18 and 32 percent, arguing that since the 32 percent marginal rate will only apply to a small percentage of taxpayers, (those with a portion of income above 80,000 zloty a year), the proposal is virtually the equivalent of a flat 18 percent rate.

15. (SBU) As the former deputy head of the PO party, Gilowska was regarded as being very close to Party leader Donald Tusk. She resigned from the party and the Sejm in May 2001, following revelations that she had employed her son and daughter-in-law in her Sejm office. Gilowska admitted no wrongdoing, saying the daughter-in-law was hired when she was still single, but told the press she would rather resign than participate in a PO "show trial," her reference to the disciplinary hearing which the PO had convoked in response to the revelations. She subsequently resumed her teaching position at Lubelski Catholic University and did not participate in the 2005 election campaign.

Curriculum Vita

15. (U)

Born: July 7, 1949

Married, one child

Education:

Degree in Econometrics from Warsaw University (1972)

Ph.D. in Economics from Marie Curie Sklodowska University in Lublin (1981)

Habilitation in Economics in 1994 from Marie Curie Sklodowska University in Lublin

Professional experience:

1981-85 Economic faculty staff assistant at Lubelski Catholic University

1985-94 Assistant professor of Economics Lubelski Catholic University

1995-99 Associate Professor of Economics Catholic Lubelski University

1999-2001 Professor of Economics Catholic Lubelski University
2001-2005 Member of the Sejm from Lublin (Civic Platform Party)

Professor Gilowska is the author of more than 200 articles and 20 books on public finance and local government.

Financial Markets Pleased

16. (SBU) The appointment of Gilowska, who is an expert on public finance, has been initially welcomed by Poland's financial markets and investors. Following news of her appointment, the Zloty strengthened against the US dollar and the Euro, GOP bonds rose, and the Warsaw stock market index initially jumped two percent, prior to profit-taking. Gilowska has reputation for toughness and speaking her mind. PO deputy head Jan Rokita quipped to the press that she would no doubt dominate future cabinet meetings. Financial observers expect her to keep a somewhat tighter rein on the GOP purse, and be a bit more likely to resist populist calls for greater social spending. However, in her initial interviews with the press, Gilowska has stressed her support of PIS' goals of increasing employment and maintaining social solidarity.

